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Enron CFO's Partnership Had Millions in Profit  
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Staff Reporters of The Wall Street Journal

A limited partnership organized by Enron Corp.'s chief financial officer, Andrew S. Fastow, realized millions of dollars in profits in transactions it did with Enron, according to an internal partnership document.

The partnership, in some instances, benefited from renegotiating the terms of existing deals with the Houston energy company in ways that improved the partnership's financial positions or reduced its risk of losses.

Mr. Fastow, and possibly a handful of partnership associates, realized more than \$7 million last year in management fees and about \$4 million in capital increases on an investment of nearly \$3 million in the partnership, which was set up in December 1999 principally to do business with Enron.

The profits from the deals were disclosed in a financial report to investors in the partnership, LJM2 Co-Investment LP, that was signed by Mr. Fastow as the general partner and dated April 30. In one case, the report indicates the partnership was able to improve profits by terminating a transaction early.

The LJM2 arrangement has become controversial for Enron, as shareholders and analysts have raised questions about whether it posed a conflict by putting the company's chief financial officer, who has a fiduciary duty to Enron shareholders, in a position of reaping financial rewards for representing LJM2 investors in business deals with Enron. Investors in LJM2 include Wachovia Corp., General Electric Co.'s General Electric Capital Corp. and Credit Suisse Group's Credit Suisse First Boston.

Attention has focused on Mr. Fastow's partnership activities at a tumultuous time for Enron, which over the past decade grew enormously by becoming the nation's biggest energy-trading company.

This year, though, it has been hit by a string of troubles, from soured business initiatives to executive departures. On Tuesday, Enron announced a \$618

million third-quarter loss, because of a \$1.01 billion write-off on investments in broadband telecommunications, retail energy services and Azurix Corp., a water company. A small chunk of that write-off, about \$35 million, was attributed to ending certain LJM2-related transactions. That termination also produced a \$1.2 billion reduction in Enron shareholder equity as the company decided to repurchase 55 million shares that had been part of LJM2 deals.

At 4 p.m. in New York Stock Exchange composite trading, Enron was down 9.9%, or \$3.20, to \$29 a share. Within the past year, the stock had topped \$80 a share.

Enron officials didn't have any comment about the LJM2 partnership document. Enron has consistently said its dealings with LJM2 have been proper. They said the LJM2 deals, like ones done with other parties, were aimed at helping hedge against fluctuating market values of its assets and adding sources of capital.

Mr. Fastow has declined several requests for an interview about LJM2. In late July, he formally severed his ties with LJM2, as a result of what Enron officials said was growing unease by Wall Street analysts and major shareholders. Mr. Fastow has been finance chief of Enron since 1997 and has been with the firm 11 years, which included extensive work setting up and managing company investments.

Michael Kopper, a former Enron executive who an Enron spokesman said is now helping to operate LJM2, declined to comment. He also wouldn't describe his relation to LJM2.

In his April 30 report, Mr. Fastow said the partnership, which raised \$394 million, had invested in several Enron-related deals involving power plants and other assets as well as company stock. The document said LJM2 sought a 29% internal rate of return. That was down from a 48% targeted rate of return at the end of 2000, which the document said was due in part to a decline in the value of LJM2's investment in New Power Co., an Enron-related energy retailer. In some transactions, LJM2 did much better than the 29% target, though this sometimes involved renegotiating individual deals.

In September 2000, the partnership invested \$30 million in "Raptor III," which involved writing put options committing LJM2 to buy Enron stock at a set price for six months. Four months into this deal, LJM2

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approached Enron to settle the investment early, "causing LJM2 to receive its \$30 million capital invested plus \$10.5 million in profit," the report said. The renegotiation was before a decline in Enron's stock price, which could have forced LJM2 to buy Enron shares at a loss of as much as \$8 each, the document indicated.

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